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SIPDIS

DEPARTMENT FOR EUR/CARC AND INR (SEWARD)

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SUBJECT: ARMENIA'S SYUNIK MARZ: NOT MUCH GROWTH AND LITTLE BENEFIT FROM PROXIMITY TO IRAN

REF: YEREVAN 631

Classified By: DCM A.F. Godfrey for reason 1.4 (b, d)

Summary

1. (C) Armenia's southern Syunik region feels very little of the economic growth that is now so obvious in the capital. Separated from the rest of Armenia by mountains and connected by a two-lane road occasionally washed out by landslides, Syunik borders the Azerbaijani exclave Nakhichevan on the West and the "occupied territories" of Azerbaijan on the east. A thirty-kilometer international border with Iran makes up Syunik's southern border on the Araks river. As one of Armenia's two open international borders, this link should be an economic lifeline, but has not brought much in the way of economic development to this poor region, as construction materials and consumer goods from Iran simply bypass Syunik on their way to Yerevan. Rich mineral deposits have delivered some wealth -- and environmental damage -- to one Syunik town. The construction of a gas pipeline from Iran continues, but questions remain about whether this asset was transferred as part of a bigger deal with Russia. Syunik will probably continue to lag behind the rest of Armenia and its unenlightened, corrupt leadership seems to have few ideas to change this. End Summary.

Southbound for Syunik

2. (SBU) With the melting of this past winter's extraordinary snowfall, travel across the pass to Yerevan's southern regions has become easier. The teeth-rattling drive to the border with Iran takes nearly eight hours from Yerevan over roads in terrible condition but through some spectacularly beautiful, barren stretches of high alpine meadows still covered with patches of snow in late Spring. At a disused intersection where Armenian drivers turn onto the two-lane road for the highlands, drivers can still see the Soviet-era highway which follows the Ararat Valley plain through Nakhichevan. If this road were open, the trip to the Iranian border crossing would be an easy three hour drive. During the southward trek, we passed dozens of Iranian trucks -- most of which were ancient U.S.-built Mack Bulldogs acquired during the days of the Shah -- laboring up the mountains.

Goris Benefits Little from Proximity to Conflict Line

3. (SBU) Goris, one of Syunik's three main cities, is the easternmost population center in Armenia before entering "occupied territory" on the way to Nagorno Karabakh. As such, it receives some small economic benefit from the transit of goods from Yerevan. More significant, according to Amcits living in the region as part of USG development projects, is the fact that farmers in the Goris area supply a significant amount of food products to the Armenian army. In general, the military presence in Syunik Marz is not obvious, as it is in other some regions of Armenia. On the east, Syunik is bordered by the occupied Azeri province of Lachin and on the west by the Azeri exclave of Nakhichevan, the area with the lowest historical incidence of cease-fire violations. The city of Goris, with its spectacular landscape and a remarkable network of ancient cave dwellings, hopes for development as a tourist destination. But few of the tourists, who are now coming to Armenia in increasing numbers, are willing to make the trip south.

Zangezur Copper Mine a Booming, Newly Private, Business

4. (SBU) Syunik's overall economic picture is bleak. Unemployment is highest of any of Armenia's regions and nearly 40 percent of the population is living in poverty. By far the largest, most steady private employer in the Syunik region is the Zangezur Copper and Molybdenum Mine. An open pit mine in operation since 1951, it was privatized in December 2004, with the majority of shares bought by a German firm. The mine processed more than 8.5 million tons of ore in 2005 and expects an increase in 2006. Highly profitable, but in need of serious investment, the mine provides steady

employment for residents of the town of Kajaran. The head of the local UNICEF office told us that pollution from the mine poses a significant health risk to residents, but that all of these same residents would prefer to take the risk rather than face unemployment.

Equipment Contract Worth USD 25 Million to U.S. Firm?

15. (SBU) The Mine's Director of Operations told us that the improvement in management since privatization was staggering. When the firm was state owned, purchasing a new truck required the approval of the Prime Minister. Now, the mine makes its own investment decisions after consulting with major stockholders. He told us that new milling equipment the mine intended to buy from a U.S. firm would increase efficiency significantly. He said that the mine was taking advantage of high copper and molybdenum prices to carry our capital investments now so the mine could weather an expected "rationalization" of copper prices expected within two or three years. (Note: The regional sales representative of the U.S. firm FFE Minerals told us they expected to sign a contract in late May for sale of milling equipment produced in Bethlehem PA with a value of USD 25 million. End note.)

Unenlightened Leadership

16. (C) A meeting with Syunik's Marzpet (governor) Suren Khachatryan was predictably disappointing. (Khachatryan is reputed to be Armenia's most corrupt governor.) A loyal member of PM Margaryan's Republican Party, our political contacts told us that he is tolerated by Yerevan as long as things in Syunik are kept quiet. While they made no concrete allegations, teachers and members of NGOs told us that issues as varied as building permits, school curriculum changes and business licenses must all pass through the Marzpet's office or face interminable delays. When we asked Khachatryan about his plans for development of Syunik, he said "everything is going well, we have good cooperation with the central government" and little else.

Environmental NGO's Success

17. (C) Khachatryan is sensitive to concerted efforts by NGOs, however. We met with Ruben Mkrtchyan, the director of Syunik's Shikahogh Nature Reserve, who led a successful campaign to persuade the GOAM to scrap plans for a new north-south highway through Armenia's last remaining virgin forest. Mkrtchyan engaged with various NGOs and called national attention to the project, and to the fact that another, more economical route for the highway was available. Accusations made by NGOs that the route through the Shikahogh Reserve was selected only so the Marzpet could profit from selling concessions to logging companies for clearing the land for the roadway hit close to home. The decision by the Syunik government to cancel plans to traverse the Reserve became an example to NGOs in Armenia that they could, in fact, change government decisions if they worked together towards a clear goal. Mkrtchyan said he had little interest in pursuing goals outside of protecting the Shikahogh Reserve and making the Reserve, which calls to mind the landscape of North Carolina's Great Smoky Mountains, a more popular destination for naturalists and tourists.

Syunik's Hydro Power

18. (SBU) With its mountains and fast-flowing rivers, the Syunik region is an attractive target for development of hydro power. The Vorotan Cascade Hydropower Complex became operational in 1971 and, with the Sevan Cascade to the north of Yerevan, remains the most reliable source of electricity generation in Armenia. Rated at 404MW, the Cascade was a recipient of USG assistance to help monitor power flows, ensuring that customers pay for their power. A joint project with Iran on the Arax river, with two power stations about ten kilometers apart, has been planned, but no construction has begun. Several mini-hydro projects funded by USAID through EBRD are planned for the region.

Slow, Steady Traffic from Iran Brings Little for Syunik

19. (SBU) A visit to the border crossing near Meghri was educational. While Samvel Safaryan, the Port Director was anything but forthcoming with data about border traffic, he led us on a tour of the facility. Modern, well-laid-out and equipped with computers and radiation detectors from the USG's Export Control and Border Security program, the port seemed sleepy, with no queue of trucks or foot passengers waiting to cross into Armenia. Russian border guards -- who still have responsibility for admitting travelers to Armenia -- proudly displayed their state flag in their workstations. On the Armenia side of the border, outside the exclusion

zone, was a row of Iranian trucks transferring their cargoes to the smaller, sturdy Russian-made Kamaz trucks better suited for the road north. On average, Safaryan told us, only about 50-60 Iranian trucks per week make the drive to Yerevan.

10. (SBU) Mikhail Hovhannisian, the Mayor of Meghri told us that in the early days of Armenia's independence and during the period when the blockade was most effective, the lifeline to Iran was vital, and Meghri benefited directly from its proximity to the border. Now, however, Armenian consumers do not buy Iranian consumer products, especially not food products, since brands they prefer are readily available from Armenian producers or from familiar sources within the CIS. Most cargoes are either building materials like tile products and plumbing fixtures of all types or products transshipped from Dubai or Turkey. While most Armenian merchants find it easier and cheaper to ship Turkish products by truck through Georgia, the advantage to shipping goods purchased in Dubai via Iran is significant. Higher-end consumer goods, including luxury automobiles, cross the border regularly on their way to Yerevan for processing by the central customs clearance point. The port director told us that if the documents are in order, if the weights of the vehicles match with shipping documents and if vehicles do not set off the radiation detectors, he has no right to inspect containers at the point of entry.

Iran Eager to Build Gas Pipeline, But for Whom?

11. (SBU) Ownership of the pipeline under construction from Iran to Armenia is still up in the air. Press reports insist that the pipeline was part of President Kocharian's deal with Gazprom to delay a doubling of the price Armenia pays for natural gas from Russia. Government officials deny this, and Armenia's Energy Minister said "How can we sell something that does not yet exist?" According to the deal struck with Iran in 2005, the pipeline is to be financed by Iran, with the loan repaid by transfers of electricity produced in Armenia. Iran seems eager to complete the project. Hundreds of sections of 70 cm diameter pipeline were visible on the Iranian side of the border, in plain sight just across the Araks river. Meghri's mayor said that Iran had loaned Japanese-produced heavy equipment to the Armenian contractor clearing the right-of-way for the pipeline. While some local labor was being used to clear the path for the pipeline, the prime contractor was a Yerevan-based firm and all Syunik would gain from the project was some low-wage jobs for a single season. He hoped, however, that gas deliveries would become more regular as the pipeline would contribute to the "gasification" of Armenia.

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